FIRST THINGS FIRST

AGENDA ITEM:
FTF Investment Strategy

CEO RECOMMENDATION(S):
- Approval to change the overall FTF investment strategy as described below, and for the FTF CFO to make final investments with the State Treasurers office based on guidance received from the Finance Subcommittee

DETAIL:
In FY11 FTF saw a total return of approximately $3.05 million on an average monthly cash base of $440 million. Of this amount FTF had $425 million invested, with the remaining amount as cash on hand. The effective annual rate of return that FTF realized was 0.72%.

Just over half of the total $1.9 million shortfall in anticipated FY11 revenues (to be used in FY12), was attributed to lower than anticipated interest income.

While FTF must invest its funds through the State Treasurer and participate in the state investment pools, there are multiple pools in which FTF could invest. When FTF began, it invested in the pool enabling the agency to stay as "liquid" as possible. FTF is currently at a place where this level of liquidity is not necessary. An overall change in investment philosophy would allow the organization to dramatically increase interest revenues and thereby positively impact the overall sustainability plan.

Currently FTF is invested entirely in a single pool which has a 6 month horizon, but because of laddering we can access the cash balances at any time. Under a revised direction FTF would invest in three (3) additional funds, each of which would require progressively longer and more rigid time commitments.

In determining investment levels in these respective pools the following facts were considered.
1. Current cash balances stand at $450 million
2. The current sustainability plan (which assumes full spending) would not have FTF Year End Fund Balance drop below $100 million until FY17, and then just slightly. In addition the first time the projected fund balance falls significantly below $150 million is not until FY15.
3. We know perfect spending (as outlined in the sustainability plan) will not be achieved and fully expect that Fund Balance will continue to grow (although much slower) in FY12. FY13 will be the first year we start to see a modest agency wide decline in Fund Balance.

4. Based on historical collection patterns and anticipated expenditure projections, the amount of revenue FTF receives in a given month largely mirror expenditures, and as such cash on hand concerns do not currently represent a significant issue.

Considering these facts, FTF's cash balance can be segmented into a total of five investment pools:

1. Cash on Hand = $10-15 million
2. 6 month laddered investment = $190-200 million (estimated APR 0.67%)
3. 18 month laddered investment = $100 million (estimated APR 1.73%)
4. 3-5 year fixed investment = $50 million (estimated APR 2.5%)
5. 6+ year long term investment = $100 million (estimated APR 7.0%)

Pool #3 would be anticipated to be locked in through FY14, Pool #4 through FY15, and Pool #5 through FY17. In FY14 the current cash position would be reassessed and investments levels would likely be adjusted. The primary driver in this decision process will be an assessment of what has happened to the cash levels within Pool #2. The expectation is the balance will still be at levels such that some of the other long term pools will be able to be extended. But, by not committing until that point FTF ensures its cash availability position.

Had FTF been invested in a structure similar to what is proposed for FY11, interest income would have been under $11.2 million as opposed to the just over $3 million realized. See attachment A (FY11 Investment Strategy Comparison). Attachment B (Proposed Investment Strategy Forecast) shows the potential earnings in each fiscal year from 2012 through 2017, with the $200 million in Pool #2 not being considered after 2013 (so as to provide the most conservative projections).

When making the final investments in Pool #4 and 5, FTF will be able to work with the State Treasurers office on the actual structure and decisions will need to be made regard specific investment vehicles. Prior to making these investments the CFO will seek advice and guidance from the Finance Subcommittee.